

2007-2011 Forecast
FIVE-YEAR FORECAST DRIVERS

BASE CASE

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|---------|---------|---------|---------|-------|
| <u>National Assumptions</u> | | | | | |
| Real Gross Domestic Product (% Change) | 2.60% | 2.80% | 3.00% | 3.00% | 3.55% |
| Prime Rate | 7.40% | 4.25% | 7.00% | 7.00% | 6.70% |
| Mortgage Rate | 6.80% | 6.90% | 6.90% | 6.80% | 6.80% |
| US Unemployment Rate | 5.10% | 5.20% | 5.40% | 5.40% | 5.40% |
| Total US Employment Rate (% Change) | 1.08% | 1.25% | 1.30% | 1.32% | 1.30% |
| US Car Sales (% Change) | 5.00% | 1.90% | (1.87%) | 6.67% | 0.00% |
| OPEC Oil Price (% Change) | (1.61%) | (1.64%) | (2.17%) | (4.60%) | 3.57% |
| US Consumer Price Index (CPI) | 3.50% | 2.20% | 2.40% | 2.50% | 2.60% |

Local Assumptions

| | | | | | |
|---|---------|---------|---------|---------|---------|
| San José Population | 929,352 | 931,210 | 933,259 | 935,686 | 938,118 |
| San José Population (% Change) | 0.18% | 0.20% | 0.22% | 0.26% | 0.26% |
| County Unemployment Rate | 4.30% | 4.37% | 4.49% | 4.47% | 4.44% |
| Total County Employment Rate (% Change) | 1.30% | 1.50% | 1.65% | 1.65% | 1.75% |
| Number of Hotel Rooms | 10,843 | 11,093 | 11,343 | 11,593 | 11,843 |
| County Consumer Price Index (CPI) | 3.66% | 3.33% | 2.48% | 2.58% | 2.68% |

February 2006 Forecast

EXPENDITURE SUMMARY

| | ADOPTED | | FORECAST | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | <u>2005-2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| TOTAL PERSONAL SERVICES | 515,331,129 | 552,854,000 | 606,626,000 | 632,532,000 | 659,557,000 | 687,750,000 |
| | | 7.28% | 9.73% | 4.27% | 4.27% | 4.27% |
| TOTAL NON-PERSONAL/EQUIPMENT | 83,950,590 | 86,322,000 | 88,048,000 | 89,809,000 | 91,605,000 | 93,437,000 |
| | | 2.82% | 2.00% | 2.00% | 2.00% | 2.00% |
| OTHER EXPENDITURES | | | | | | |
| CITY-WIDE EXPENSES | 115,538,402 | 94,092,000 | 98,156,000 | 99,743,000 | 101,234,000 | 102,810,000 |
| OTHER TRANSFERS | 3,509,431 | 4,020,000 | 4,016,000 | 5,272,000 | 5,274,000 | 2,889,000 |
| CAPITAL PROJECTS | 14,359,594 | 5,706,000 | 5,642,000 | 5,773,000 | 5,797,000 | 6,026,000 |
| EQUIPMENT (INCLUDING COMPUTER) | 0 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| SALARY AND BENEFIT RESERVE | 19,983,048 | 22,367,000 | <i>Included in P/S</i> | <i>Included in P/S</i> | <i>Included in P/S</i> | <i>Included in P/S</i> |
| EARMARKED RESERVES | 41,042,975 | 1,450,000 | 1,450,000 | 1,450,000 | 1,450,000 | 1,450,000 |
| VEHICLE REPLACEMENT/GENERAL FLEET | 0 | 1,750,000 | 1,750,000 | 1,750,000 | 1,750,000 | 1,750,000 |
| VEHICLE REPLACEMENT/POLICE FLEET | <i>Included in N/P</i> | <i>Included in N/P</i> | 703,000 | (1,785,000) | 2,213,000 | 34,000 |
| TOTAL OTHER EXPENDITURES | 194,433,450 | 129,735,000 | 112,067,000 | 112,553,000 | 118,068,000 | 115,309,000 |
| | | (33.28%) | (13.62%) | 0.43% | 4.90% | (2.34%) |
| | | | | | 193 | |
| CONTINGENCY RESERVE | 24,819,462 | 26,005,000 | 27,263,000 | 28,374,000 | 29,603,000 | 30,575,000 |
| TOTAL BASE EXPENDITURES (w/o ADDITIONS) | 818,534,631 | 794,916,000 | 834,004,000 | 863,268,000 | 898,833,000 | 927,071,000 |
| | | (2.89%) | 4.92% | 3.51% | 4.12% | 3.14% |

OPERATING MARGIN

| | ADOPTED | | FORECAST | | | |
|---|------------------|--------------|--------------|-------------|-------------|-------------|
| | <u>2005-2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| BASE EXPENDITURES (w/o ADDITIONS) | | | | | | |
| GRAND TOTAL REVENUE | 818,534,631 | 766,934,000 | 771,136,000 | 797,814,000 | 824,782,000 | 853,221,000 |
| GROWTH RATE | | (6.30%) | 0.55% | 3.46% | 3.38% | 3.45% |
| TOTAL BASE EXPENDITURES (w/o ADDITIONS) | 818,534,631 | 794,916,000 | 834,004,000 | 863,268,000 | 898,833,000 | 927,071,000 |
| GROWTH RATE | | (2.89%) | 4.92% | 3.51% | 4.12% | 3.14% |
| OPERATING MARGIN CHANGE | | (27,982,000) | (34,886,000) | (2,586,000) | (8,597,000) | 201,000 |
| <i>From Prior Year</i> | | | | | | |

February 2006 Forecast

EXPENDITURE SUMMARY

| | ADOPTED FORECAST | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2005-2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| <u>COMMITTED ADDITIONS:</u> | | | | | | |
| Hayes Mansion Conference Center | | 3,900,000 | 3,900,000 | 3,900,000 | 3,900,000 | 3,900,000 |
| Street Improvements | | 172,000 | 230,000 | 288,000 | 331,000 | 347,000 |
| New Parks and Recreation Facilities Maintenance | | 985,000 | 1,612,000 | 1,832,000 | 2,063,000 | 2,286,000 |
| New Parks and Recreation Facilities Operations | | 124,000 | 142,000 | 141,000 | 126,000 | 131,000 |
| Communications Hill Fire Station | | 336,000 | 2,268,000 | 2,237,000 | 2,367,000 | 2,505,000 |
| Measure O (Library) Maintenance | | 347,000 | 800,000 | 1,030,000 | 1,539,000 | 1,739,000 |
| Measure O (Library) Operations | | 1,768,000 | 2,025,000 | 3,484,000 | 6,889,000 | 8,517,000 |
| Measure P (Parks) Maintenance | | 103,000 | 133,000 | 1,109,000 | 1,323,000 | 1,388,000 |
| Measure P (Parks) Operations | | 176,000 | 186,000 | 1,537,000 | 3,055,000 | 3,253,000 |
| Measure O (Public Safety) Operating and Maintenance: Fire | | | 718,000 | 4,956,000 | 5,183,000 | 7,806,000 |
| Measure O (Public Safety) Operating and Maintenance: Police | | | 26,000 | 376,000 | 753,000 | 789,000 |
| TOTAL COMMITTED ADDITIONS | 0 | 7,911,000 | 12,040,000 | 20,890,000 | 27,529,000 | 32,661,000 |
| TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS) | 818,534,631 | 802,827,000 | 846,044,000 | 884,158,000 | 926,362,000 | 959,732,000 |
| | | (1.92%) | 5.38% | 4.50% | 4.77% | 3.60% |

OPERATING MARGIN

| | ADOPTED FORECAST | | | | | |
|--|------------------|---------------------|---------------------|---------------------|---------------------|--------------------|
| | <u>2005-2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| BASE EXPENDITURES (w / COMMITTED ADDITIONS) | | | | | | |
| GRAND TOTAL REVENUE | 818,534,631 | 766,934,000 | 771,136,000 | 797,814,000 | 824,782,000 | 853,221,000 |
| GROWTH RATE | | (6.30%) | 0.55% | 3.46% | 3.38% | 3.45% |
| TOTAL BASE EXPENDITURES (w / COMMITTED ADDITIONS) | 818,534,631 | 802,827,000 | 846,044,000 | 884,158,000 | 926,362,000 | 959,732,000 |
| GROWTH RATE | | (1.92%) | 5.38% | 4.50% | 4.77% | 3.60% |
| OPERATING MARGIN CHANGE | | (35,893,000) | (39,015,000) | (11,436,000) | (15,236,000) | (4,931,000) |
| <i>From Prior Year</i> | | | | | | |

ONE-TIME FUNDING AVAILABLE

| | | | | | | |
|---|-------------------|-------------------|------------------|------------------|------------------|------------------|
| <i>2006-2007 Future Deficit Reserve</i> | 18,425,550 | | | | | |
| <i>Proceeds from Sale of E-Lot</i> | | 12,500,000 | | | | |
| <i>Cardroom Revenue</i> | 9,500,000 | 9,500,000 | | 9,500,000 | 9,500,000 | 9,500,000 |
| TOTAL ONE-TIME FUNDING | 27,925,550 | 22,000,000 | 9,500,000 | 9,500,000 | 9,500,000 | 9,500,000 |

BASE CASE

February 2006 Forecast

REVENUE SUMMARY

| | ADOPTED | FORECAST | | | | |
|--------------------------------|------------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2005-2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| PROPERTY TAX | 143,996,000 | 182,414,000 | 192,939,000 | 203,069,000 | 213,872,000 | 224,715,000 |
| | | 26.68% | 5.77% | 5.25% | 5.32% | 5.07% |
| SALES TAX | 135,243,000 | 144,008,000 | 149,682,000 | 155,744,000 | 161,569,000 | 167,450,000 |
| | | 6.48% | 3.94% | 4.05% | 3.74% | 3.64% |
| DEPARTMENTAL CHARGES | 27,366,083 | 27,473,000 | 28,549,000 | 29,565,000 | 30,597,000 | 31,678,000 |
| | | 0.39% | 3.92% | 3.56% | 3.49% | 3.53% |
| BUSINESS LICENSE TAX | 28,300,000 | 27,000,000 | 27,065,000 | 27,135,000 | 27,208,000 | 27,287,000 |
| | | (4.59%) | 0.24% | 0.26% | 0.27% | 0.29% |
| MONEY & PROPERTY | 6,217,454 | 10,489,000 | 10,278,000 | 10,015,000 | 9,751,000 | 9,488,000 |
| | | 68.70% | (2.01%) | (2.56%) | (2.64%) | (2.70%) |
| OTHER LICENSES | 43,969,830 | 37,394,000 | 38,995,000 | 40,640,000 | 42,262,000 | 43,995,000 |
| | | (14.96%) | 4.28% | 4.22% | 3.99% | 4.10% |
| MOTOR VEHICLE IN LIEU | 5,500,000 | 5,202,000 | 5,336,000 | 5,466,000 | 5,616,000 | 5,767,000 |
| | | (5.42%) | 2.58% | 2.44% | 2.74% | 2.69% |
| FEDERAL REVENUE | 9,854,456 | 1,383,000 | 1,383,000 | 1,383,000 | 1,383,000 | 1,383,000 |
| | | (85.97%) | 0.00% | 0.00% | 0.00% | 0.00% |
| OTHER STATE REVENUE | 5,392,192 | 3,867,000 | 3,952,000 | 4,047,000 | 4,148,000 | 4,256,000 |
| | | (28.29%) | 2.20% | 2.40% | 2.50% | 2.60% |
| GAS TAX | 17,000,000 | 17,000,000 | 17,238,000 | 17,481,000 | 17,839,000 | 17,825,000 |
| | | 0.00% | 1.40% | 1.41% | 2.05% | (0.08%) |
| TRANSIENT OCCUPANCY TAX | 6,450,000 | 7,500,000 | 7,982,000 | 8,369,000 | 8,819,000 | 9,305,000 |
| | | 16.28% | 6.43% | 4.85% | 5.38% | 5.51% |
| UTILITY TAX | 67,844,000 | 76,436,000 | 79,012,000 | 82,133,000 | 83,800,000 | 86,649,000 |
| | | 12.66% | 3.37% | 3.95% | 2.03% | 3.40% |
| FRANCHISE FEES | 33,138,000 | 36,644,000 | 37,084,000 | 38,066,000 | 39,380,000 | 41,231,000 |
| | | 10.58% | 1.20% | 2.65% | 3.45% | 4.70% |
| FINES, FORFEITURES & PENALTIES | 12,695,000 | 12,355,000 | 12,479,000 | 12,628,000 | 12,780,000 | 12,933,000 |
| | | (2.68%) | 1.00% | 1.19% | 1.20% | 1.20% |
| REVENUE FROM LOCAL AGENCIES | 41,928,346 | 44,378,000 | 45,027,000 | 45,691,000 | 46,371,000 | 47,069,000 |
| | | 5.84% | 1.46% | 1.47% | 1.49% | 1.51% |
| OTHER REVENUE | 19,562,861 | 11,052,000 | 14,288,000 | 13,885,000 | 14,069,000 | 14,255,000 |
| | | (43.51%) | 29.28% | (2.82%) | 1.33% | 1.32% |
| TOTAL GENERAL FUND REVENUE | 604,457,222 | 644,595,000 | 671,289,000 | 695,317,000 | 719,464,000 | 745,286,000 |
| | | 6.64% | 4.14% | 3.58% | 3.47% | 3.59% |

February 2006 Forecast

REVENUE SUMMARY

| | ADOPTED FORECAST | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2005-2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| TRANSFERS & REIMBURSEMENTS | | | | | | |
| OVERHEAD REIMBURSEMENTS | 27,512,110 | 29,035,000 | 29,906,000 | 30,803,000 | 31,727,000 | 32,679,000 |
| TRANSFERS | 50,294,721 | 35,525,000 | 24,082,000 | 24,706,000 | 25,355,000 | 26,029,000 |
| REIMBURSEMENTS FOR SERVICES | 515,000 | 579,000 | 596,000 | 614,000 | 633,000 | 652,000 |
| TOTAL TRANSFERS & REIMBURSEMENTS | 78,321,831 | 65,139,000 | 54,584,000 | 56,123,000 | 57,715,000 | 59,360,000 |
| | | (16.83%) | (16.20%) | 2.82% | 2.84% | 2.85% |
| AVAILABLE BEGINNING BALANCE | 135,755,578 | 57,200,000 | 45,263,000 | 46,374,000 | 47,603,000 | 48,575,000 |
| GRAND TOTAL SOURCES | 818,534,631 | 766,934,000 | 771,136,000 | 797,814,000 | 824,782,000 | 853,221,000 |
| | | (6.30%) | 0.55% | 3.46% | 3.38% | 3.45% |